

Message Text

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ORIGIN DOE-15

INFO OCT-01 EA-10 ISO-00 EB-08 SOE-02 SS-15 NSCE-00
L-03 AID-05 CEA-01 CIAE-00 COME-00 DODE-00 H-01
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APPROVED BY EA/TIMBS:ROBERT E. FRITTS
DOE/PE LGOLDMAN
DOE/OGC RCGOODWIN
DOE/DS JFO'LEARY
DOE/IA - W MCDONALD
EA/TIMBS - E CHESKY
EB/ORF/FSE - D HART

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O 041840Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY JAKARTA IMMEDIATE

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E.O. 11652:NA

TAGS: ENRG, OVIP (MONDALE, WALTER F.), ID

SUBJECT: PACIFIC INDONESIA LNG CASE

FOR VICE PRESIDENT FROM SCHLESINGER
ALSO FOR VICE PRESIDENT'S PARTY AND AMB. MASTERS
1. THERE HAS BEEN A POSITIVE DEVELOPMENT ON THE PRICE
ESCALATOR ISSUE OF THE PACIFIC INDONESIA LNG CASE SINCE
YOUR DEPARTURE. ON MAY 2, REPRESENTATIVES OF THE PARTICI-
PATING COMPANIES MET WITH DOE OFFICIALS TO DISCUSS DOE'S
POLICY REACTION TO ALTERNATIVE ESCALATOR APPROACHES; THIS
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ISSUE WAS DESCRIBED IN MY MEMORANDUM TO YOU OF APRIL 28.

2. COMPANY INTERMEDIARIES INDICATED AT MAY 2 MEETING
THAT GOI MIGHT CONSIDER THE FOLLOWING MODIFICATIONS OF
ORIGINAL PRICE ESCALATOR PROPOSAL WHICH HAD BEEN
REJECTED BY DOE:

A. 50 PERCENT OF ESCALATOR WOULD STILL BE TIED TO
INDONESIAN CRUDE OIL PRICES, BUT GOI IS WILLING TO PLACE
A CEILING ON THE ANNUAL RISE OF THIS PART OF ESCALATOR IN
ORDER TO INSULATE U.S. (CALIFORNIA) CONSUMERS FROM SHARP
PRICE INCREASES: ESCALATOR INCREASES ABOVE STIPULATED
CEILING MIGHT BE BANKED OR CARRIED FORWARD, AND SPREAD
OUT OVER LATER YEARS.

B. OTHER 50 PERCENT OF ESCALATOR MIGHT BE TIED TO A
GENERAL U.S. ECONOMIC INDEX SUCH AS GNP DEFLATOR, WPI,
OR CPI, RATHER THAN LINKED TO A MORE VOLATILE U.S.
WHOLESALE ENERGY PRICE INDEX.

3. WHILE ANY PROPOSAL ON ALTERNATIVE PRICE ESCALATORS IS
SUBJECT TO INDEPENDENT DOE REGULATORY REVIEW AND APPROVAL,
THE CONCEPT OUTLINED DURING THE MEETING IS GENERALLY
ACCEPTABLE TO DOE FROM A POLICY POINT OF VIEW.

4. COMPANY REPRESENTATIVES IN WASHINGTON WERE ADVISED
MAY 3 THAT THE CONCEPT IS GENERALLY ACCEPTABLE TO DOE.
IT IS THEREFORE HIGHLY LIKELY THAT GOI OFFICIALS WILL BE
AWARE OF THIS POSITIVE DEVELOPMENT PRIOR TO YOUR ARRIVAL.

5. THE SITING ISSUE DESCRIBED IN MY APRIL 28 MEMORANDUM
REMAINS OPEN AND DIFFICULT; THUS THE PROJECT IS BY NO
MEANS "HOME FREE."
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6. NONETHELESS, GIVEN HIGH PRIORITY AND VISIBILITY OF
THIS PROJECT IN INDONESIA, YOU MAY WISH TO ADVISE GOI
OFFICIALS OF THIS POSITIVE DOE POLICY REACTION TO THE
ESCALATOR QUESTION DISCUSSED AT THE MAY 2 MEETING
DURING YOUR VISIT TO JAKARTA. ACCORDINGLY, YOU MAY WISH
TO DRAW ON THE FOLLOWING REVISED TALKING POINTS.

7. REVISED TALKING POINTS

A. AFTER CONSULTATIONS ON MAY 2 BETWEEN COMPANY
REPRESENTATIVES AND DOE ON THE PRICE ESCALATOR ISSUE,
WE ARE ENCOURAGED THAT THE MODIFIED ESCALATOR FORMULA
MEETS OUR GENERAL POLICY CONCERNS.

B. ON THE SITING ISSUE YOU MAY WANT TO INDICATE THAT
DOE WILL COOPERATE WITH THE STATE OF CALIFORNIA AND CARRY
OUT AN EXPEDITED REVIEW OF THE SITE SELECTED BY THE
STATE.

C. EQUALLY IMPORTANT, IT WOULD BE INADVISABLE TO
GIVE THE INDONESIANS THE IMPRESSION THAT AGREEMENT ON THE

PRICE ESCALATOR QUESTION WOULD RESULT IN IMMEDIATE
APPROVAL OF THE SITE SELECTED BY CALIFORNIA. DUE PROCESS
REQUIRES THAT THE FINAL REVIEW OF THE PROPOSED SITE TAKE
INTO CONSIDERATION THE INTERESTS OF ALL PARTIES. YOU
MAY, HOWEVER, WISH TO COMMENT THAT THE UNITED STATES
RECOGNIZES THE NEED TO RESOLVE THE CASE IN A TIMELY
MANNER. CHRISTOPHER

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